

DOCUMENT RESUME

07437 - [C2968053]

Sales of Duty-Free Goods in the Far East: Accountability and Control Should Be Improved (Unclassified Version of a Classified Report). FPCD-77-77A; B-180731. September 6, 1978. 9 pp. + 6 appendices (38 pp.).

Report to Secretary, Department of Defense; by H. L. Krieger, Director, Federal Personnel and Compensation Div.
Attention: Assistant Secretary of Defense (Comptroller).

Issue Area: Personnel Management and Compensation (300).

Contact: Federal Personnel and Compensation Div.

Budget Function: National Defense: Department of Defense - Military (except procurement & contracts) (051).

Organization Concerned: Department of the Air Force; Department of the Army; Department of the Navy.

Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services.

Authority: FAM Circular 378.

U.S. Government employees in foreign countries, including military personnel, may buy American- and foreign-made goods duty-free in accordance with military and foreign affairs agreements. Merchandise control systems at U.S. military activities in Taipei, Taiwan, and the Republic of the Philippines were designed to keep U.S. goods from entering the local economy on a duty-free basis. Findings/Conclusions: Personnel under the Status of Forces Agreement (SOFA) in Taiwan realize profits from sales of personal property after a prescribed period of ownership, thus circumventing the SOFA. In many cases, waivers of the holding periods were granted. The merchandise control system developed at Taiwan, estimated to cost in excess of \$100,000 annually, limits patrons of exchanges and commissaries, the dollar amount of monthly purchases, and the sale of items in high demand in local markets. The limits on commissary and high demand items are too high. Exchange sales, which averaged \$141 a month for every U.S. individual for February 1976 through February 1977, are not limited in total but should be. In the Philippines, the sale of U.S. duty-free goods in the local market is the most prevalent criminal activity engaged in by U.S. personnel. A system established to control duty-free merchandise sales was estimated to cost in excess of \$1 million annually. The system has resulted in a 12% to 13% reduction in exchange and commissary sales. However, local sales of duty-free goods and overpurchasing are continuing, and relatively few "big spenders" are investigated. Recommendations: The Commander, U.S. Taiwan Defense Command, should: issue regulations precluding SOFA personnel from retaining an amount in excess of acquisition cost in the sale of personal property including vehicles; require personnel to demonstrate need prior to permitting the purchase of accountable items; establish lower limits on sale of beer, soda, and

tobacco; establish dollar limits on exchange sales; restrict privileges of certain dependents; grant authority to Area Coordinating Officers to administer the merchandise control system and obtain Embassy permission for them to issue final departure clearance; and increase efforts to encourage local authorities to identify and prosecute those selling U.S. duty-free goods in the local market. Military officials in the Philippines should: increase efforts to identify and investigate "big spenders" and punish violators; reduce total exchange purchase limits; reduce purchase limits on cigarettes, liquor, and wine; and eliminate cross-servicing of exchange patrons. Department of Defense personnel should not be permitted to gain financially by virtue of their official position. (HTW)

REPORT BY THE U.S.

General Accounting Office

Sales Of Duty-Free Goods In The Far East: Accountability And Control Should Be Improved

This is an unclassified version of an August 28, 1978, GAO report on the need to improve the accountability and control of sales of duty-free goods in the Far East.

U.S. Government employees, including military personnel, in foreign countries may buy American- and foreign-made goods duty-free in accordance with military and foreign affairs agreements. Resale of these goods is restricted to persons within the duty-free community, but often permission is granted to sell outside this community.

Some of these goods are obtained without authorization, and this has been a continuing problem for U.S. and host country authorities. Control over this problem can be improved by gaining cooperation of host-country authorities and by reducing the available number of items.

Military personnel should be treated as other U.S. Government personnel. Their official position should not entitle them to gain financially on the sale of personal property, particularly on privately owned vehicles, shipped duty-free at the expense of the U.S. Government.





UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-180731

The Honorable
The Secretary of Defense

Attention: Assistant Secretary of Defense
(Comptroller)

Dear Mr. Secretary:

We have completed a survey of the merchandise control systems used at U.S. military activities in Taipei, Taiwan, and the Republic of the Philippines. The systems are designed to keep U.S. goods from entering the local economy on a duty-free basis. Our objective included determining the cost and effectiveness of the systems as implemented at U.S. activities under the direction of the Taiwan Defense Command (TDC); and the U.S. Naval Base, Subic Bay, and Clark Air Base, Republic of Philippines; and various military and civilian activities in the Manila area.

U.S. Forces serving under the Status of Forces Agreement (SOFA) realize and retain large profits on the sale of personal property and privately owned vehicles brought into Taiwan under duty-free privileges.

Deleted

CONTROL OVER THE SALE OF PERSONAL PROPERTY
BY MILITARY ACTIVITIES IN THE REPUBLIC OF CHINA

Although it is not possible to estimate the volume of duty-free U.S. commissary and exchange goods entering the local market, on the basis of the number of stores in Taipei selling the goods and the fact they can be sold for twice the purchase price, it must be substantial. Main shoppers at the local markets are

wealthy Chinese, western business people, and bar hostesses. They buy such things as food products, soaps, cosmetics, glasses, dinnerware, bedding materials, rugs, and other items.

Military officials believe the local sale of U.S. goods could be stopped if the Republic of China (ROC) took aggressive action, but the ROC tacitly approves such sales as in the best interest of the ROC business community. The United States has not formally appealed to the ROC to eliminate the sales.

Need to eliminate large profits
on sales of personal property
including privately owned vehicles

Personnel under the Ministry of Foreign Affairs Agreement (MOFA) may not sell personal property including privately owned vehicles, outside the duty-free community for personal profit. Such profit taking is viewed as diminishing the stature of the American mission, damaging the U.S. image abroad, and results in undue personal advantage. Excess proceeds from sales must be donated to U.S. charities or the U.S. Government.

SOFA personnel on the other hand realize profits from such sales after owning the property for a prescribed period of time thereby circumventing the Status of Forces Agreement.

During the period March 1976 through February 1977, exchange sales of Sony color TV averaged 1 for every 2 principals in ROC and air conditioner sales 1 for every 1.68 principals. During the period January 1, 1977, through March 10, 1977, profits of about \$541,000 were made on 155 privately owned vehicles (1974 or newer) sold by SOFA personnel in the Taipei area. Examples ranged from a \$9,740 profit on a 1976 Ford Granada to \$22,400 on a 1977 Mercury Gran Marquis.

Many of these sales involved waivers of the required holding periods. Others may have been purchased with the intent of profiting. An examination of a number of sales of privately owned vehicles revealed that they were purchased when the individuals had a year or little more than a year of their tour in Taiwan remaining.

Withdrawal of permission to personally profit should result in fewer imports of high value items and privately owned vehicles at a cost to the Government and in equal treatment of U.S. Government personnel stationed in Taiwan.

Need to strengthen merchandise controls

To limit sales of U.S. commissary and exchange goods, a merchandise control system, estimated to cost in excess of \$100,000 annually, was developed which limits patrons of exchanges and commissaries, the dollar amount of monthly purchases, and the sale of items in high demand in local markets.

The limits on commissary and high demand items are too high. For instance, beer and soda are limited to 4 cases a week for a sponsor and a dependent. During the period February 1976 through January 1977, beer and soda sales averaged 3.38 and 2.90 cases, respectively, for every U.S. man, woman, and child in Taipei. Sales averaged 4.24 and 3.74 cases respectively each summer month.

Exchange sales are not limited in total but should be. During February 1976 through February 1977, exchange sales averaged \$141 a month for every U.S. man, woman, and child, including major appliances and \$123 excluding them. This volume seems high, especially when compared with monthly allowances for U.S. Forces in Korea where there also is a problem with local sales of duty-free goods. The allowances, excluding large item purchases, are \$100 for one person, \$140 for a family of two, and \$160 for a family of three.

Persons responsible for administering the merchandise control system and investigative officials told us that unaccompanied wives (whose husbands are not stationed where the wives live and have exchange privileges) and non-command-sponsored wives (wives of lower graded enlisted personnel whom the Government does not transport or provide housing) are a major source of U.S. duty-free goods for local market sales. U.S. officials in Korea and the Philippines recently have restricted privileges to them.

There is no single control point for clearing all U.S. personnel for accountable items before departure from ROC or for enforcing the merchandise control system. Personnel could leave without a proper accounting, and commanding officers responsible for violators did not treat them equally.

CONTROL OVER THE SALE OF
PERSONAL PROPERTY BY MILITARY
ACTIVITIES IN THE PHILIPPINES

The Philippine-U.S. Military Bases Agreement of 1947 grants the U.S. duty-, tax-, and inspection-free importation and sale of merchandise and services. The agreement makes the United States responsible for insuring the privilege is not abused and states the Philippine authorities shall cooperate.

The sale of U.S. duty-free goods in the local market is estimated to be the most prevalent criminal activity engaged in by U.S. service and civilian personnel and their dependents and accounts for a sizable percentage of commissary and exchange sales (possibly \$5 to \$10 million or more annually).

The existence of markets as "PX havens" and tips on how to get your money's worth was the subject of a recent article in a major Manila newspaper. One market occupied two square blocks and contained from 200 to 300 shops. Another, selling only exchange and commissary items, was recently built at an estimated cost of up to \$1 million.

As in Taiwan, a system to control duty-free merchandise sales was established at an estimated annual incremental cost in excess of \$1 million to limit the number of patrons, the dollar amount of monthly purchases, and the sale of items of high demand in local markets.

The introduction of a mechanized system at one base and other actions has resulted in a 12- to 13-percent reduction in exchange and commissary sales. Placing an American monitor in one sales outlet reduced sales by 78 percent.

Although efforts have been made to control sales, local sales of duty-free goods and overpurchasing continue. "Big spenders" are identified through the mechanized system, but relatively few are investigated. Of those that are, about 98 percent have their privileges revoked or suspended. With sufficient staffing, more could be investigated.

Deleted

Further reductions in goods available to the local market could be made by lowering limits on exchange purchases. The present monthly limit is base pay less commissary purchases. The limits set in Korea (as discussed above) also could be applied in the Philippines.

Cigarette, liquor, and wine limits appear high and probably could be reduced. Every couple at one base can purchase up to 12 cartons of cigarettes, 12 bottles of liquor, and 24 bottles of wine a month.

Allowing customers to shop in all exchanges in the Philippines makes it difficult to monitor purchases. Such cross-servicing between commissaries at two bases is not permitted. The exchange should be included.

These matters are more fully discussed in appendixes I (Controls Over The Sale Of Personal Property - Taiwan Defense Command) and II (Controls Over The Sale Of Personal Property - Military Activities In The Philippines).

RECOMMENDATIONS

U.S. officials have taken positive action to control sales of duty-free goods in the Republic of China and the Republic of the Philippines, but control by military authorities varies between the countries and could be improved.

Deleted

To these ends, we recommend that you require the following actions be taken.

--The Commander, U.S. Taiwan Defense Command, should

- Issue regulations precluding SOFA personnel from retaining an amount in excess of acquisition cost in the sale of personal property including privately owned vehicles.
- Require personnel to demonstrate need prior to permitting the purchase of restricted and other accountable items.

- Establish lower limits on individual sales of beer, soda, and tobacco.
 - Establish dollar limits on exchange sales.
 - Eliminate or restrict privileges of unaccompanied and non-command-sponsored dependents.
 - Grant authority to Area Coordinating Officers (with provision for appeal to higher authority) to administer the merchandise control system for all SOFA personnel in Taiwan.
 - Obtain Embassy permission for Area Coordinating officers to issue final departure clearance to Military Assistance and Advisory Group personnel.
 - Increase efforts to encourage local authorities to identify and prosecute local merchants and others selling U.S. duty-free goods in the local market.
- Military officials in the Republic of the Philippines should:
- Increase staffing and efforts to identify and investigate "big spenders" and punish violators.
 - Reduce total exchange purchase limits.
 - Reduce purchase limits on cigarettes, liquor, and wine.
 - Eliminate cross-servicing of exchange patrons.

Deleted

Also, Department of Defense personnel should not be permitted to gain financially by virtue of their official position especially on the sale of personal property shipped at the expense of the U.S. Government and not subject to host country importation restrictions and taxes. At most installations Defense Department personnel will have a sizable market within the duty-free community. Therefore, you should consider whether continued sales of personal property outside the duty-free community by Defense Department personnel are in the best interests of the Department of Defense and the U.S. Government or should be stopped as soon as practicable. To ease the possible consequences of such restriction on major items exchanges could be required to offer a rental service or sale and repurchase agreements.

On August 26, 1977, we advised the U.S. Ambassador, Taiwan of our findings with respect to the Embassy's controls over the sale of personal property outside the duty-free community by U.S. Government personnel subject to MOFA. A copy of that report is included as appendix VI to this report. Generally speaking, U.S. Government personnel should be equally subjected to necessary restrictions. We urge your cooperation with State Department officials in achieving this end and jointly solving the problem of controls over the sale of duty-free goods.

We would appreciate being advised of what action you plan to take on our recommendations. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the above committees, to the Secretary of State, to the military secretaries, and to the Commissioner of the Internal Revenue Service.

We appreciate the courtesies and cooperation extended to our representatives during our survey.

Sincerely yours,



H. L. Krieger
Director

CONTROLS OVER THE SALE
OF PERSONAL PROPERTY -
TAIWAN DEFENSE COMMAND

REQUIREMENT FOR MERCHANDISE CONTROL

The Status of Forces Agreement (SOFA) grants the United States the right to import and sell personal property, including vehicles, free of all Chinese import taxes and duties. The United States is responsible for taking administrative measures to prevent the resale of these goods to persons not entitled to import such goods duty free and generally to prevent abuses of privileges granted. The Commander, Taiwan Defense Command (TDC), as a Single Senior Military Representative, prescribes merchandise control policy for all SOFA activities in the Republic of China (ROC).

LOCAL SALES OF U.S. DUTY-FREE GOODS
IN THE REPUBLIC OF CHINA

Various U.S. officials informed us it is not possible to estimate the volume of duty-free U.S. commissary and exchange goods entering the local market but they are of the opinion it is substantial based upon (1) the number of stores in Taipei that sell such items and (2) the fact that individuals can reasonably expect to double their investment in the local market. Most of the local market activities are estimated to occur within the limits of the merchandise control system. The cost of transporting commissary and exchange goods from the United States to overseas locations is paid from appropriated funds.

To obtain firsthand knowledge of local market sales activities, we visited three markets specializing in the sale of commissary and exchange merchandise, ranging in size from a small corner grocery to an open market containing numerous stalls. Accompanying military investigative agents told us the main shoppers at these markets are wealthy Chinese, western business people, and bar hostesses, as the items sold are generally too expensive for the average Chinese. Commissary and exchange goods, including food products, soaps, cosmetics, glasses and dinnerware, bedding materials, rugs, and other items, were available for sale. The U.S. price tags and stamps were still on many items. Some contained ROC customs stamps, thus making them legal items for

sale. Items with customs stamps are seldom sold but are merely used to create an image to authorities that the stores are legal. Customer purchases are filled from stocks not on display.

Military officials believe local sales of U.S. duty-free goods could be stopped if the ROC took aggressive action to seize goods and not allow the local markets to reopen. However, these officials also believe the markets are tacitly approved by the ROC since they represent a source of goods to the western business community and wealthy Chinese. It is expected that a reduction in the availability of western goods would have a negative impact on the business community and thus would not be in the ROC's interest. The U.S. Government has not made any formal appeals to the ROC soliciting their aid in eliminating sales of duty-free goods.

A few joint U.S./ROC raids on local markets were conducted during 1976. The stores were believed to be too open and were causing embarrassment to the ROC. Goods were seized, fines were levied, and the shops were closed. The shops were reopened but in at least one case there may be a new owner. The prior owner was heavily fined and was driven out of business. This severity of action was unusual and may have been due more to the discovery of poppy seeds than from his sales of duty-free goods.

NEED TO ELIMINATE LARGE PROFITS
ON SALES OF PERSONAL PROPERTY
INCLUDING PRIVATELY OWNED VEHICLES

U.S. authorities have identified high value items with unusual demand on the local economy and developed special controls to prevent their purchase and immediate resale in the local community. However, TDC regulations do not preclude SOFA personnel from realizing profits on the resale of merchandise outside the duty-free community after holding it for prescribed periods of time. Other U.S. personnel in the ROC under the Ministry of Foreign Affairs Agreement ^{1/} (MOFA) are not permitted to sell personal property including privately owned vehicles (POVs) for personal profit. U.S.

^{1/}Includes personnel and dependents of the U.S. Embassy, the Military Assistance and Advisory Group, the U.S. Army Technical Group, and other attached agencies of the U.S. Embassy, associated contractors, and their nonappropriated fund activities.

Embassies follow this practice worldwide. Excess proceeds on MOFA sales must be donated to charity or to the U.S. Government. Withdrawal of permission for SOFA personnel to personally profit should result in fewer imports of high value items and POVs.

U.S. activities abroad which have permitted employees to profit on the sale of personal property, including POVs, have in the past come under strong criticism by Members of the Congress and the General Accounting Office. Profit taking of this type is viewed as diminishing the stature of the American mission, damaging the U.S. image abroad, and resulting in undue personal advantage under circumstances created by reason of official Government service to which special customs and import privileges are attached. These same criticisms can be applied to military activities.

U.S. authorities in Taiwan never reported profits made on the sale of personal property and POVs to the U.S. Internal Revenue Service even though such data has been available on POV sales.

Sale of personal property

High value items with unusual demand on the local economy (restricted/accountable items) are limited as to the quantity that may be purchased and the period of time they must be held (6 months) before disposal permission will be granted. Patrons may receive permission for purchase in excess of normal limits or in unusual circumstances to dispose of items prior to 6 months' possession.

We were unable to determine the amount of profit being realized in the sale of personal property (excluding POVs) because there are no requirements for individuals to report such information to authorities. However, through contact with a local buying agent we were able to obtain the current resale prices of selected items that were highly desirable in the local community. These prices are reflected on the next page.

	Purchase price (note a)	Sales price	
		New in box	2 years old (note b)
Sony 19" color TV	\$430	\$800+	\$600
Whirlpool AC (21,000 BTU)			
Summer sale	354	700-800	600
Winter sale	354	650	500
Whirlpool refrigerator			
Side by side	429	c/858	c/ 22
Top and bottom	360	c/720	c/598
Freezer (chest)	258	c/516	c/414
Stove			
Small	218	c/436	c/342
Large	299	c/598	c/382
Washer/dryer	446	868	476

a/Navy Exchange, Taipei prices.

b/Add \$50 if original box is included in the sale.

c/Estimated sales price based on buying agent's formula.

During the period March 1976 through February 1977, Navy Exchange sales of the above items were as follows:

	Quantity (note a)
Sony Color TV (all sizes)	1,178
Air-Conditioners (all brands and sizes)	1,457
Refrigerators (all brands and sizes)	630
Freezers (all brands and sizes)	170
Stoves (both gas and electric)	487
Washer/dryer (all brands)	462

a/Need is not determined at the time of sale if the patron is purchasing within his allowable limits.

These sales appear high in relation to the number of U.S. principals in the ROC--during 1976 about 1 of every 2 principals purchased a Sony color TV and 1 of every 1.68 principals purchased an air-conditioner. We were advised sales of the above items would generally be higher in the

ROC than at other military installations because no Government-furnished family quarters are available and rental quarters often do not contain any of the above necessities. Nevertheless, sales should be reduced considerably if personnel were not permitted to sell their personal property at a profit outside the duty-free community upon departure.

At the time of our visit to Taipei the Shu Lin Kou Air Station closure had been announced and 297 waiver requests had been processed for personnel to sell restricted/accountable items outside the duty-free community. Review of these requests disclosed a number of examples of personal property apparently purchased primarily for profit upon resale. A few examples follow.

--After 14 months of a 21-month tour an individual sold his accumulated leave and purchased the following items 7 months before his normal date of return from his overseas station and retirement:

- 1 Sony color TV
- 2 Air-conditioners
- 1 Freezer
- 1 Dryer
- 1 Amplifier
- 1 Turntable
- 2 Speakers

When informed by TDC that he would not be allowed to sell the items outside the duty-free community for a profit, he complained that he was being forced to lose money. This was despite admitting he bought the items only for profitable resale prior to retirement, and despite TDC allowing for sale within the duty-free community or for resale back to the exchange at full or near full value.

--An individual was not allowed to sell his Whirlpool air-conditioner (a popular brand in the local community) outside the duty-free community after a routine accounting revealed the item was still in its original unopened container and apparently was not purchased for personal use.

--An individual was allowed to sell four speakers outside the duty-free community despite owning them for less than 2 months and having no other stereo equipment with which to use them.

Other examples are contained in appendix III.

Sales of privately owned vehicles

Between January 1, 1977, and March 10, 1977, profits of about \$541,000 were made on 155 vehicles (1974 or newer) sold by SOFA personnel stationed in the Taipei area. Another 69 vehicles of model year 1973 or older were sold at prices that in some instances equaled or exceeded their original purchase prices.

Under TDC regulations POVs must be in Taiwan for 2 years before sale outside the duty-free community is permitted, or 1 year provided the owner is within 90 days of departure. Under unusual circumstances these requirements may be waived. Many of the January and February 1977 sales involved waivers issued in relation to the Shu Lin Kou Air Station closure.

Examples of a few of the newer vehicle sales are as follows:

<u>Vehicle</u>	<u>Purchase price</u>	<u>Sales price</u>	<u>Profit</u>	<u>Date of import (note a)</u>
1977 Mercury Gran Marquis	b/7,600	\$30,000	\$22,400	12/22/76
1977 Ford LTD	b/7,150	26,250	19,100	12/23/76
1977 Mercury Cougar	c/6,500	20,000	13,500	11/18/76
1977 Ford Granada	c/6,000	25,534	19,534	12/22/76
1976 Ford Granada	b/5,760	15,500	9,740	11/21/76
1976 Chrysler	b/7,000	22,500	15,500	8/22/76

a/All vehicles were owned by persons affected by Shu Lin Kou Air Station closure. All vehicles were ordered prior to the formal base closure announcement which occurred on October 8, 1976.

b/Purchase prices obtained from original sales agreements.

c/Original purchase prices estimated by Navy exchange automotive sales personnel.

A complete listing of all 155 vehicle sales is contained in appendix IV.

Examples of 1973 and older POV sales prices are shown below:

<u>Vehicle</u>	<u>Purchase price</u>	<u>Sales price</u>
1971 Ford Mustang	\$ N/A	\$2,503
1972 Datsun	1,890	1,989
1973 Monte Carlo	4,275	5,700
1973 Chevrolet Wagon	4,104	4,005
1973 Plymouth Fury	3,550	3,500
1973 Monte Carlo	<u>a/3,000</u>	4,800
1973 Pontiac Grand Am	N/A	5,300
1973 Oldsmobile	N/A	6,434
1973 Ford LTD	N/A	5,227
1973 Chrysler	N/A	5,000
1973 Ford Torino	N/A	4,500

a/Vehicle was in a used condition when purchased. N/A-Not available.

Our analysis of 33 vehicles sold in 1977 demonstrates that vehicles may have been purchased with the intent of profiting. We base this opinion on the length of time selected individuals were in the ROC before receiving their vehicles and the length of time remaining in their normal tours when the vehicles were received as shown below.

<u>Tour length</u>	<u>Sales transactions examined (note a)</u>	<u>Average tour length</u>	<u>Average time in ROC before receipt of POV</u>	<u>Average time remaining in tour when POV received</u>
----- (months) -----				
18 months or less	10	15.4	3.4	12
Greater than 18 months	23	34.8	19.6	15.2

a/Twenty-one of the 33 transactions involved POVs purchased through the Navy Exchange or similar automobile sales outlets in Taipei.

As shown, many individuals were ordering new vehicles in time to meet prescribed holding time limits. This permitted them to have a newer model vehicle for sale upon their departure which resulted in higher profit. Specific examples of vehicles that may have been imported with an intent to profit are shown in appendix V.

We also found that similar practices occurred during 1976 when 520 POVs were sold outside the duty-free community. Many of these sales were also made under waived holding time periods caused by base closure and personnel reductions.

NEED TO STRENGTHEN MERCHANDISE CONTROLS

To limit local sales of U.S. duty-free goods, a merchandise control system was developed which (1) limits patrons who are permitted access to the commissaries and exchanges, (2) limits the dollar amount of monthly total purchases permitted by eligible patrons in the commissaries, and (3) places special limits/restrictions on items with high demand in local markets, such as beer, soda, tobacco products, televisions, and most appliances. Merchandise control violators have their privileges suspended or revoked. The annual incremental cost of the merchandise control system is estimated to be in excess of \$100,000.

Potential for reducing ration limits

Lower ration limits on selected exchange items and establishment of an overall limit on exchange sales should result in less merchandise exiting U.S. bases into local markets. Present limits on exchange items and commissary allowances are as follows:

<u>Item</u>	<u>Ration allowance</u>	
	<u>Sponsor</u>	<u>Sponsor plus dependent</u>
Tobacco	2 cartons/week	4 cartons/week
Beer	2 cases/week	4 cases/week
Soda	2 cases/week	4 cases/week
Commissary	a/\$140/month	b/\$205/month

a/Persons residing in the military hostel are limited to \$70 per month.

b/Allowances increase incrementally as increases occur in family size.

We analyzed Taipei beer and soda sales for the period February 1976 through January 1977 and found that sales averaged 3.38 and 2.90 cases, respectively, per month for every U.S. man, woman, and child in Taipei. During the period May through September 1976 (summer months) sales for this same group averaged 4.24 and 3.74 cases, respectively, per month. Although we do not have any criteria against which these averages can be compared, they appear excessive when considering they apply to every U.S. man, woman, and child, regardless of age, whether military or civilian, assigned to Taipei. Tobacco limits also could be reduced. At the one other country visited during our review tobacco limits were lower than in Taiwan.

The Navy Exchange does not have any overall limits on monthly dollar sales of merchandise to patrons. Our analyses disclosed that between February 1976 and January 1977 exchange sales averaged \$141 per month for every U.S. man, woman, and child in Taipei. After deducting sales of major appliances during this time period, sales still amounted to about \$123 for this same group. This volume of sales appears high, especially when compared to monthly allowances permitted of U.S. Forces in Korea. The Korean allowance, which excludes single item purchases costing \$35 or more and control items (often the same), is as follows:

<u>Family size</u>	<u>Allowance</u>
1	\$100
2	140
3	160

Potential for restricting
privileges for unaccompanied and
non-command-sponsored dependents

Personnel administering the merchandise control system and investigative officials advised us that unaccompanied and non-command sponsored-dependent wives are one of the major sources of U.S. duty-free goods for local markets. In recognition of this same fact U.S. officials in the Philippines and Korea have taken action within the past year to restrict privileges granted to this category of dependents.

Potential for more uniform
administration of merchandise
control

Between March 1976 and March 1977, 74 persons in the Taipei area had their privileges revoked and 128 others received suspensions because of merchandise control violations. Area Coordinating Officers (ACOs) were responsible for issuing ration cards, administering the program, investigating suspected violations, and clearing personnel prior to their departure from the ROC. However, violators are turned over to their commanding officers who are then responsible for administering punishment. This often results in unequal punishment.

The ACOs could be given responsibility for suspending or revoking commissary and exchange privileges of all violators regardless of command, with provisions for individual appeal to higher authority. We noted this practice has been successfully followed at Clark Air Base in the Philippines where the merchandise control officer has responsibility over the system for all Clark cardholders, including the suspension and revocation of privileges. A consistently applied punishment results in equal treatment for all.

The ACO maintained the merchandise control files on Military Assistance and Advisory Group (MAAG) personnel but did not have authority to issue clearances prior to their permanent change of station departures. The Embassy processed the final clearances but without benefit of all merchandise control data. We were told this resulted in some cases of MAAG personnel departing Taiwan without a complete accounting of all controlled items listed on their records.

CONTROLS OVER THE SALE OF
PERSONAL PROPERTY-
MILITARY ACTIVITIES IN THE PHILIPPINES

REQUIREMENT FOR MERCHANDISE CONTROL

The Philippine-U.S. Military Base Agreement of 1947 grants the United States the right to import and sell merchandise and services free of all taxes, duties, and inspection by Philippine authorities. The United States is responsible for taking administrative measures to prevent the resale of these goods to persons not entitled to buy goods at U.S. activities and generally to prevent abuse of the duty-free privileges granted. To this end, the agreement states there shall be cooperation between U.S. and Philippine authorities.

The Commander in Chief, Pacific Representative, Philippines, as Single Senior Military Representative, prescribes merchandise control policy for all activities in the Philippines.

LOCAL SALES OF U.S. DUTY-FREE GOODS

U.S. authorities estimate that a sizable percentage of the goods sold by U.S. commissaries and exchanges (possibly \$5 to \$10 million or more annually) are sold in the Philippine local market. The sale of duty-free goods to local markets was estimated to be the most prevalent criminal activity engaged in by a combination of U.S. service and civilian personnel and their dependents. An individual can reasonably expect to double his investment in the local market. Most of the activity is estimated to occur within the limits of the merchandise control system. The cost of transporting U.S. goods to the commissaries and exchanges are paid from appropriated funds.

The sale of duty-free commissary and exchange goods in Philippine local markets was very much in the open. To obtain firsthand knowledge of local market sales we visited one of several markets specializing in the sale of Subic Bay Naval Base and Clark Air Base commissary and exchange merchandise. The market visited was a two-square block, one-story complex containing an estimated 200 to 300 small shops. The original commissary and exchange price tags and stamps were

attached to much of the merchandise. A military investigative agent who accompanied us on our visit told us the U.S. price tag is a sign of quality to local purchasers. Among the items we saw were a popular brand of scotch whiskey containing the U.S. Navy control seal, glass sets that were sold out the prior day at the exchange, General Electric stoves and refrigerators, assorted U.S. brand candies, and numerous U.S. brand cosmetic and shampoo products.

Deleted

In November 1976 a major Manila newspaper featured an article giving tips on how to get your money's worth at the "PX havens." The subject of the article was the market visited by us. In the article one vendor explained that toys are at a premium because commissary cardholders must have children to be able to buy toys. The fact that local market sales of U.S. duty-free goods are featured in news articles shows the lack of concern of Philippine authorities.

The newest of these outlets recently built at an estimated cost of up to \$1 million sells only exchange and commissary items.

U.S. EFFORTS TO CURTAIL LOCAL SALES OF DUTY-FREE GOODS

To reduce the flow of duty-free merchandise from U.S. bases, merchandise control systems have been developed which (1) limit patrons who are permitted access to the commissaries and exchanges, (2) limit the dollar amount of monthly total purchases permitted by eligible patrons in the commissaries and exchanges, and (3) place special limits/restrictions on items with high demand in local markets, such as liquor, tobacco products, televisions, and major appliances. In addition, cross-servicing of commissary privileges between Clark and Subic are not permitted. Merchandise control violators have their privileges suspended or revoked. The annual incremental cost of the merchandise control system was estimated to be in excess of \$1 million. This did not include costs of time spent on merchandise control by commanding officers, the Staff Judge Advocate, or the Air Force Office of Special Investigations (OSI).

At Clark the system had been mechanized so that merchandise control personnel could better monitor individual purchases and take immediate action on the most serious offenders. At the time of our visit Subic was scheduled to implement, within the month, a mechanized system similar in format to that employed at Clark. Other recent actions taken by U.S. activities include

- withdrawal of authorized privileges from non-command-sponsored dependents,
- placing American dependents in commissary and exchange outlets as monitors, and
- delivery of color television sets purchased by fleet personnel direct to the individual's ship.

The effect of the above actions is evidenced by drops in sales at the Subic commissary and the Clark exchange. At Subic, commissary sales decreased by \$800,000 (12 percent) between 1975 and 1976 despite a minor increase in base population during the same period of time. At Clark, exchange sales between March 1976 and February 1977 decreased by about \$2.9 million (13 percent) from the previous year. At one Clark outlet, a 78-percent drop in sales from the same month in the prior year occurred when an American monitor was placed in the store.

During 1976 U.S. military authorities court-martialed 34 servicemen and administered non-judicial punishment to 143 others for selling U.S. duty-free goods to local merchants and buyers. Administrative action has been taken to withdraw or restrict commissary and exchange privileges of about 1,386 servicemen and their dependents.

Even with all of the above controls, overpurchasing and sale of duty-free goods continues to be a problem in the Philippines. To illustrate, the Clark system produces a monthly printout of "big spenders" or individuals who spent in excess of 175 percent of their ration allowance during the month or exceeded their exchange allowances. The normal ration allowances at Clark and their limits at 175 percent are as follows:

<u>Name</u>	Ration allowance (<u>note a</u>)	Ration allowance on 175 percent <u>on listing</u>
Exchange limits (note b)	Base pay less commissary purchases	Same
Commissary limits	1 person-\$100/month	\$175/month
	2 persons-190/month	333/month
Cigarettes	1 person- 60 packs/month	105 packs/month
	2 persons-120 packs/month	210 packs/month
Liquor	1 person- 6 BTLs/month	11 BTLs/month
	2 persons- 12 BTLs/month	22 BTLs/month
Wine (note c)	1 person- 12 BTLs/month	21 BTLs/month
	2 persons- 24 BTLs/month	42 BTLs/month

a/Subic Bay ration allowances on some items differ from those permitted at Clark.

b/Retired persons and eligible members of the Philippine Armed Forces are limited to a monthly allowance of \$30 to \$50.

c/Regulations issued by the Commander in Chief, Pacific Representative, Philippines and by activities under his guidance do not identify wine as a rationed item. However, at Clark wine limits have been administratively established at the limits shown.

During January 1977, 836 individuals, or 6.1 percent, of all sponsors appeared on the "big spenders" listing. This represents a decrease from October and December 1976 when the numbers were 1,300 and 1,500, respectively. Many of the "big spenders" exceeded their monthly exchange limits due to a major controlled-item purchase and are not violators. Nevertheless, generally about 100 of the worst offenders were investigated

at Clark each month and about 98 percent of these persons had their privileges suspended or revoked. With sufficient staffing more could be investigated each month.

Efforts to solicit aid from
the Philippine Government

We could find little or no evidence that the Philippine Government was cooperating with U.S. authorities in attempting to limit the sale of U.S. duty-free goods. To the contrary, the Republic of the Philippines had actually impeded progress in this area by (1) failing to pursue a policy geared toward the seizure and confiscation of duty-free goods in the possession of unauthorized persons and (2) allowing Philippine courts to be used to enforce illegal acts.

In other countries a vigorously applied policy of seizure and confiscation of duty-free goods found in the possession of unauthorized persons has proven effective in eliminating their sale in local markets. Under Philippine law persons found with duty-free goods are only required to pay the unpaid duty. No other penalties are assessed unless the goods are contraband. Under this procedure a person is encouraged to sell duty-free goods.

Deleted

Deleted

1/Legal hold is a form of legal confinement to a base while a case is being processed through the local courts. A person can be placed on hold by the Philippine courts for a number of reasons, including estafa and "grave oral defamation" (broad-base slander). As of February 1977 about 121 persons at Subic were on hold, 83 of which were held beyond their normal rotation dates. Another 51 were on hold at Clark. Often cases remain pending and individuals may be held for a year or more. Many of the hold cases are invalid and are eventually dropped.

The United States has been in the forefront in suggesting that the two countries meet to discuss additional measures that could be taken to discourage the sale of duty-free goods. In March 1976 the U.S. Embassy in Manila conveyed to the Government of the Philippines a formal Diplomatic Note which proposed that the two governments work closely to improve procedures designed to eliminate such sales. It was suggested that the Legal Affairs Committee of the Philippine/United States Mutual Defense Board would be the appropriate forum to initiate such discussions.

The subject was discussed at the Legal Affairs Committee meetings of December 1976 and January and February 1977, but little if any progress had been made toward solving the problem. In January 1978, the Department of State noted that a joint task force was established in September 1977 under the direction of senior officials of the Philippine Departments of Foreign Affairs, Defense, and Justice; the U.S. Charge; and U.S. Air Force and Navy commands. The State Department also advised that a Philippine presidential order recently was issued stating no Philippine military or government personnel were authorized further use of exchange facilities.

ADDITIONAL CONTROLS THAT WOULD
FURTHER RESTRICT LOCAL SALES OF U.S. DUTY-FREE GOODS

As we noted, U. S. officials in the Philippines are taking positive actions to control local sales of commissary and exchange merchandise. We identified several areas where the United States could take steps to further limit the volume of goods finding their way to the local markets. We believe the following actions would not result in further inconveniences to commissary and exchange patrons:

- Place additional emphasis on enforcement of existing regulations. At Clark over 800 individuals appear monthly on the "big spenders" list (see p. 14). Due to staffing limitations only the worst offenders on these lists can be investigated for merchandise control violations. Application of additional staff resources to the investigative function for a short period of time should result in numerous additional suspensions and serve as a warning to others.

--Reduce exchange purchase limits. The present monthly exchange limit is base pay less commissary purchases. This limit appears high, especially when compared to the limitations applied to U.S. Forces in Korea. The Korean allowance, which excludes single-item purchases costing \$35 or more and control items (often the same), is as follows:

<u>Family size</u>	<u>Allowance</u>
1	\$100
2	140
3	160
etc.	

- Reduce purchase limits on cigarettes and liquor and revise regulations to place limits on wine sales, especially for families of two or more persons. Every couple at Clark can purchase 12 cartons of cigarettes and 12 bottles of liquor each month. At Clark wine limits have been administratively set at 24 bottles per couple per month. At Subic liquor limits are 4 bottles per month for each person and 8 bottles per month for each couple. Lower overall limits with special exemptions for heavy users should not impact severely on eligible customers.
- Eliminate cross-servicing of Clark and Subic exchange patrons unless the merchandise is ordered, paid for, delivered, and accounted for through the patron's authorized exchanges. We were advised this is a source of constant violations. Cross-servicing of commissary customers was previously discontinued and no adverse effects resulted.

PERSONAL PROPERTY PURCHASED
IN ROC
WITH THE POSSIBLE INTENT TO PROFIT (note a)

<u>Months on island</u>	<u>Months before normal departure</u>	<u>Item purchased/sold</u>
9	7	1 Sony color TV 1 Air-conditioner
28	8	1 Sony stereo system 1 Air-conditioner
28	7-1/2	1 Refrigerator
14	10	1 Sony color TV
15	9	1 Air-conditioner
28	8	1 Air-conditioner
6	6	1 Whirlpool refrigerator
8	7	1 Refrigerator 1 Air-conditioner
26	10	1 Amplifier 1 Tape recorder 1 Turntable 4 Speakers
24	9	1 Stereo system

Average time on island--18.6 months.

Average time before normal departure--8.15 months.

a/Waiver authority to sell these items prior to the culmination of normal duty tours was granted by TDC in relation to the Shu Lin Kou Air Station closure. The ACO recommended against waiver approval in all cases because in his opinion the merchandise was purchased with the primary intent to profit.

PROFITS MADE ON VEHICLE SALES IN ROCJANUARY 1, 1977 to MARCH 10, 1977MODEL YEAR 1974 OR NEWER

	Purchase price (note a)	Sales price (note b)	Sales price to purchase price (percent)
1976 Datsun	\$ 4,350	\$ 5,263	121
1974 Ford Mustang II	3,835	6,000	156
1974 Chevrolet Monte Carlo	4,700	4,105	87
1977 Mercury Gran Marquis	7,600	30,000	395
1976 Mitsubishi	3,850	4,000	123
1977 Ford LTD	7,150	26,250	367
1974 Honda Civic	3,400	3,700	109
1976 Mitsubishi	3,850	5,745	149
1974 Pontiac Le Mans	4,800	6,483	135
1976 Toyota Celica	6,400	7,000	109
1976 Ford Gran Torino	6,500	13,000	200
1976 Buick Le Sabre	6,500	17,976	277
1975 Mitsubishi	2,950	2,700	92
1976 Ford Granada	5,000	9,512	190
1974 Chevrolet Nova	3,200	5,395	169
1976 Toyota Celica	6,400	9,000	141
1976 Cadillac DeVille	8,678	20,000	230
1975 Chevrolet Malibu	3,900	8,000	205
1976 AMC Gremlin	3,300	6,000	182
1976 Plymouth Volare	4,900	13,982	285
1975 Toyota Corona	5,200	6,100	117
1976 Toyota Corona	5,400	6,316	117
1974 Ford Mustang II	3,835	5,000	130
1975 Chevrolet Nova	3,400	10,000	294
1974 Ford Mustang	3,800	6,000	158
1974 Toyota Corona	2,690	6,000	223
1974 Chevrolet Vega	3,000	4,000	133
1976 Pontiac Sunbird	5,500	5,600	102
1976 Capri	3,600	10,000	278
1976 Mitsubishi Gallant	3,850	6,000	156
1974 Volkswagen	3,050	4,600	151
1976 Mitsubishi Gallant	4,100	N/A	
1977 Mercury Cougar	6,500	20,000	308
1976 Ford Granada	6,175	16,000	259
1974 Dodge Dart	4,500	6,850	152
1976 AMC Pacer	4,600	7,989	174
1976 Toyota Celica	6,400	6,500	102
1974 Capri	3,300	6,100	185

APPENDIX IV

APPENDIX IV

	Purchase price (note a)	Sales price (note b)	Sales price to purchase price (percent)
1976 Chevrolet Camaro	\$ 4,500	\$ 10,250	228
1974 Ford Pinto	3,700	3,368	91
1974 Mitsubishi Colt	2,700	2,597	96
1974 Toyota	5,000	5,400	108
1976 Ford Granada	5,565	11,500	207
1976 Ford Granada	5,639	14,000	248
1975 Ford Torino	6,000	10,000	167
1976 Datsun	3,822	6,000	157
1974 Volkswagen Beetle	3,050	3,553	116
1974 Chevrolet Vega	3,000	3,650	122
1976 Ford Granada	5,000	12,000	240
1976 Ford Granada	5,760	15,500	269
1974 Toyota	5,000	5,450	109
1976 Buick LTD	8,200	22,800	278
1975 Pontiac	5,200	16,700	321
1974 Toyota Station Wagon	5,000	3,695	74
1974 Volvo	N/A	9,000	N/A
1976 Hornet Sportabout	4,500	5,000	111
1974 Datsun	2,900	2,000	69
1976 Chevrolet Nova	3,350	7,000	209
1974 Honda CVCC	3,400	2,000	59
1977 Ford Granada	6,000	25,534	426
1976 Ford Granada	5,000	15,500	310
1975 Subaru 1600	3,877	5,006	129
1976 Mitsubishi Gallant	3,850	5,500	143
1976 Mitsubishi Colt	3,250	3,955	122
1974 Toyota Corona	2,800	5,500	196
1976 Plymouth Fury	4,641	4,000	86
1976 Ford Granada	5,000	13,000	260
1976 Mitsubishi Gallant	3,850	5,000	130
1974 Dodge Charger	4,500	4,494	100
1975 Mitsubishi Lancer	2,950	3,505	119
1975 AMC Sportabout	4,500	3,100	69
1976 Mitsubishi Gallant	3,850	4,389	114
1976 Ford Granada	5,400	16,618	308
1976 Mitsubishi Gallant	3,850	4,330	112
1974 Oldsmobile Omega	4,000	5,570	144
1976 Ford Granada	5,400	11,700	217

APPENDIX IV

APPENDIX IV

	Purchase price (<u>note a</u>)	Sales price (<u>note b</u>)	<u>Sales price to purchase price</u> (percent)
1975 Mitsubishi Gallant	\$ 2,950	\$ 5,007	170
1976 Mitsubishi Gallant	3,850	5,007	130
1976 Ford LTD	6,800	20,000	294
1976 Ford Granada	4,737	13,382	282
1976 Chrysler Cordoba	6,387	15,000	235
1976 Ford Granada	5,565	14,000	252
1976 Mitsubishi Gallant	3,850	6,000	155
1975 Chevrolet El Camino	4,700	3,000	64
1975 Ford Granada	5,200	11,315	218
1976 Mitsubishi Gallant	3,650	5,093	140
1976 Mitsubishi Colt	3,250	4,500	133
1976 Mitsubishi	4,215	6,000	142
1974 Ford Mustang II	5,000	6,122	122
1975 Datsun	4,000	4,000	100
1974 Volkswagen Station Wagon	5,308	5,293	100
1976 Mitsubishi Gallant	3,850	5,000	130
1976 Mitsubishi Gallant	4,200	7,200	171
1976 Ford Granada	5,000	14,000	280
1976 Chevrolet Caprice	5,097	16,000	314
1976 Toyota Corolla	3,600	5,700	158
1975 Chevrolet Vega	3,200	6,711	210
1975 Datsun	4,000	5,000	125
1975 Dodge	4,142	8,947	216
1975 Chevrolet Malibu	3,600	10,600	294
1974 Chevrolet Vega	3,000	5,200	173
1975 Honda CVCC	3,600	4,000	111
1974 Lincoln	9,500	14,211	150
1974 Subaru Station Wagon	3,000	3,500	117
1976 Mitsubishi	3,850	5,000	130
1976 Ford Granada	5,000	14,016	280
1974 Chevrolet Vega	3,000	5,000	167
1976 Mitsubishi	3,850	6,053	157
1975 Mitsubishi	2,950	3,500	119
1976 Dodge Dart	4,900	7,500	153
1976 Mitsubishi	4,100	4,100	100
1975 Mitsubishi	2,950	3,300	112
1974 Pontiac Gran Prix	4,900	9,987	204
1974 AMC	3,700	3,000	81

APPENDIX IV

APPENDIX IV

	Purchase price (<u>note a</u>)	Sales price (<u>note b</u>)	Sales price to purchase price (percent)
1974 AMC Hornet	\$ 3,700	\$ 4,450	120
1974 Honda CVCC	3,400	4,000	118
1974 MG Midget	4,700	2,600	55
1976 Ford Mustang II	5,183	7,000	135
1974 Daihatsu	1,665	1,200	72
1975 Chevrolet Monte Carlo	5,500	13,600	247
1976 Chevrolet	5,800	11,842	204
1974 Volkswagen	3,050	4,500	148
1974 Mitsubishi	2,900	3,000	103
1975 Mitsubishi Gallant	2,950	4,700	159
1975 Mitsubishi	2,950	2,400	81
1974 Pontiac Station Wagon	5,000	2,943	59
1974 Volkswagen	3,050	6,032	198
1975 Ford LTD	6,400	15,000	234
1975 Mitsubishi	2,950	4,007	136
1974 AMC Gremlin	3,000	2,350	78
1976 Mitsubishi	3,600	5,000	139
1976 Mitsubishi	3,850	6,491	169
1975 Oldsmobile Cutlass	5,200	13,000	250
1974 Mitsubishi	2,450	3,000	122
1975 Ford Pinto	3,500	6,500	186
1975 Mitsubishi	2,950	3,725	126
1974 Mazda	4,000	5,000	125
1975 Volkswagen	3,300	5,050	153
1974 Volkswagen	3,050	4,153	136
1974 Buick Station Wagon	5,400	3,700	69
1975 Ford Granada	4,498	10,100	225
1974 Toyota Corona	2,800	4,500	161
1974 Subaru	3,000	2,737	91
1976 Mitsubishi Gallant	3,850	5,908	153
1976 Chevrolet Chevelle	4,200	16,000	381
1976 Chrysler New Yorker	7,000	22,500	321
1976 Mitsubishi	3,850	4,506	117
1976 Ford Granada	5,000	11,000	220
1977 Mitsubishi Gallant	4,100	4,756	116
1975 Ford Maverick	4,000	7,100	178
1976 Mitsubishi Gallant	3,850	5,250	136
1975 Ford Granada	4,100	7,000	171

	Purchase price (<u>note a</u>)	Sales price (<u>note b</u>)	Sales price to purchase price (percent)
1974 Fiat X19	\$ 4,800	\$ 4,500	94
1975 Chevrolet Camaro	3,800	9,000	237
1976 Mitsubishi	3,600	6,500	181
1976 Toyota Celica	6,400	11,000	172
1974 Capri	3,300	6,509	197
	<u>Total</u>	<u>Average</u>	
Sale prices	\$1,220,863	\$7,877	
Purchase prices	<u>680,264</u>	<u>4,389</u>	
Profit	<u>\$ 540,599</u>	<u>\$3,488</u>	
Average profit to purchase price		<u>79%</u>	

a/Purchase prices were obtained from Provost Marshall Office files where available. In all other cases prices were estimated based upon information furnished by automobile sales representatives or based upon purchased prices of similar make and model vehicles. Wherever possible, estimates were compared with actual purchase prices of cars of similar make and year.

b/Base on reports of sales prices of similar vehicles, some sales prices appear to be understated. All prices were obtained from bills of sale.

POVs THAT MAY HAVE BEEN IMPORTED INTO THE ROC
WITH AN INTENT TO PROFIT (note a)

<u>Rate</u>	<u>Year/make POV</u>	<u>Import date</u>	<u>At time of import</u>	
			<u>Time on island</u>	<u>Time remaining on tour</u>
			(months)	
MSgt	1976 Cadillac	7/15/76	24	12
MSgt	1976 Ford	3/15/76	10	16
MSgt	1976 Ford	4/10/76	9	16
MSgt	1976 Mitsubishi	8/13/76	6	15
Sgt	1976 Mitsubishi	8/13/76	8	16
Sgt	1976 Mitsubishi	10/7/76	12	12
MSgt	1976 Datsun	4/18/76	21	15
TSgt	1976 Chevrolet	10/2/76	15	14
MSgt	1976 Ford	4/30/76	18	13
E-5	1976 Datsun	4/18/76	31	15
GS-6	1977 Mercury	11/18/76	10	14
A1C	1976 Mitsubishi	3/6/76	14	13

a/Waiver authority to sell these vehicles prior to the culmination of normal duty tours was granted by TDC in relation to the Shu Lin Kou Air Station closure. The ACO recommended against waiver approval in all cases because in his opinion the primary motivation for importing the vehicle was profit.



UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION

FAR EAST BRANCH
PRINCE JONAH KUHIO KALANIANA'OLE FEDERAL BUILDING
300 ALA MOANA BOULEVARD
HONOLULU, HAWAII 96813

AUG 26 1977

The Honorable Leonard Unger
American Ambassador
U.S. Embassy
Taipei, Taiwan

Dear Mr. Ambassador:

We have completed a survey of the merchandise control system administered by the U.S. Embassy in Taipei, Taiwan. The system is designed to control the importation, use, and disposal of duty-free commodities (personal vehicles, other personal property, and liquor) by U.S. Embassy and attached agency personnel in Taiwan. We found that the Embassy's management controls on vehicle and other personal property sales and on gifts and liquor sales could be improved. Taipei Embassy officials were briefed on our observations and they generally agreed that the controls should be improved.

The sale of personal property, particularly motor vehicles, abroad by American employees has been criticized by members of Congress and the General Accounting Office because of profits that sellers have realized on the transactions. Profit-taking on sales of this kind is viewed as diminishing the stature of the American mission, damaging the United States image abroad, and resulting in undue personal advantage under circumstances created in substantial part by reason of official Government service to which special customs and import privileges are attached.

In a September 3, 1974, letter to Representative H. R. Gross we reported on the administrative procedures of the U.S. Embassy, Lima, Peru, relating to sales of personal property where profits on such sales by U.S. Government employees were permitted. Some of the same weaknesses we noted there exist at the U.S. Embassy, Taipei, Taiwan.

ACCURATE REPORTING OF PERSONAL
PROPERTY SALES IS NOT ASSURED

The U.S. Embassy, Taipei, Taiwan, did not have a system for verifying or following up sales of personal property and the disposition of profits on such sales to assure that they were accurately reported and the profits properly distributed.

Department of State regulations, as set forth in Foreign Affairs Manual Circular 378, prohibit the sale of personal automobiles and other personal property by U.S. Government employees abroad at prices producing profits to them which result primarily from import privileges derived from their official status. The regulations provide, however, that under local regulations approved by the Ambassador, sales may be made at profit but in no event shall any profits be retained by the employee.

In accordance with Circular 378, the U.S. Embassy, Taipei, Taiwan, issued regulations on vehicle disposal (Circular 30/75) and on property disposal (Circular 31/75). The provisions of these regulations apply to all Embassy personnel and dependents which includes the Embassy, the Military Assistance and Advisory Group, the U.S. Army Technical Group, other attached agencies of the U.S. Embassy and associated contractors, and their nonappropriated fund activities. Under these procedures written approval of the Unit Administrative Officer and the General Services Officer are required before sales of personal property, including vehicles, can be accomplished.

Sales of personal vehicles

Circular 30/75 allows a person to sell one vehicle outside the duty-free community per tour providing it has been in the owner's possession on Taiwan for at least 2 years or it has been in the seller's possession on Taiwan for at least a year and the seller has either transfer or retirement orders having an effective date within 90 days of sale. Also, sellers may not retain an amount in excess of acquisition costs.

We tested the Embassy's system for monitoring these sales and concluded that reported sales and acquisition costs are questionable and the Embassy's system did not assure that the profits on sales of personal vehicles were properly reported and distributed. We identified as many as 16 possible cases where reported acquisition and sales prices should have raised a question of whether profits were being accurately reported. According to the Administrative Counselor and the General Services Officer, sales are not followed up to insure that correct sales and purchase prices are reported.

At the time of our survey, profitmaking was allowed for vehicle sales by military and civilian U.S. Government personnel not assigned to the Embassy. To determine whether Embassy assigned or attached personnel might have made a profit on vehicle sales, we reviewed the sales of 60 vehicles. We compared the sales of 15 late model vehicles with similar sales at a profit by U.S. military personnel in Taiwan during January and February 1977. Sales prices reported in 14 of the 15 Embassy cases were lower than for similar sales in a profit environment. For example, one of the 14 sellers reported a sales price of \$4,905 for a 1975 Ford Granada. Three similar sales by military personnel who may retain profits on such sales were made at reported sales prices of \$7,000, \$10,000, and \$11,300. See enclosure 1 for additional examples.

We also reviewed the 60 sales for overstating purchase prices. In one sale the reported purchase price for a 1974 Mercedes Benz 230 sedan was \$9,820. However, a check of the vehicle's Taiwan registration documents disclosed a purchase price of \$8,620. We reviewed available files and were unable to identify any other costs that the seller could report as acquisition costs. The seller reported only a \$5,200 profit on a \$15,020 sales price. Because the reported purchase prices differed, Embassy officials to whom the figures were available should have questioned whether the reported profit was understated by \$1,200. The reported purchase price--\$10,000--of another Mercedes appears high and also should have been questioned.

Sales of other personal property

Circular 31/75 governs the sale of personal property outside the duty-free community by Embassy personnel. Limits on these sales are based on type of item (accountable restricted and accountable) and time on island of the item and the seller. Accountable restricted items are air-conditioners, dehumidifiers, TVs, hot water heaters, refrigerators, freezers, pianos, and organs. Each sponsor is allowed to sell a specific number of each item outside the duty-free community providing the seller has some form of permanent change-of-station orders and the item has been in the owner's possession at least 6 months prior to the date of application for disposal.

Accountable items are stoves, washing machines, dryers, kerosene heaters, electric cooking appliances, camera equipment, stereo equipment, golf equipment, luggage, and other electrical appliances. Each sponsor is allowed to sell a specific number of each item outside the duty-free community providing the item has been in the owner's possession on island for at least 12 months.

We examined the sales of personal property during 1976 by Embassy and attached agency personnel. For a majority of the sales it appeared that the items sold had been bought for bona fide personal use and not with the intent of making a profit. However, in all the sales we reviewed no profits were reported and the General Services Officer stated that he knew of no profits ever being reported.

We obtained from a local buying agent in the private sector the current resale prices of items sold in these transactions. The following prices of items highly desired by the local community indicate that profits could have been made on the sale of these items.

	Purchase price (note 1)	Sales price:	
		New in box	2 years old (note 2)
Sony 19" Color TV	\$430	\$800+	\$600
Whirlpool AC (21,000 BTU)			
Summer Sale	354	700-800	600
Winter Sale	354	650	500
Whirlpool Refrigerator			
Side by side	429	<u>3/</u> 858	<u>3/</u> 722
Top and bottom	360	<u>3/</u> 720	<u>3/</u> 598
Freezer (chest)	258	<u>3/</u> 516	<u>3/</u> 414
Stove			
Small	218	<u>3/</u> 436	<u>3/</u> 342
Large	299	<u>3/</u> 598	<u>3/</u> 382
Washer/dryer	446	868	476

1/Navy Exchange, Taipei prices.

2/Add \$50 if original box is included in the sale.

3/Estimated sales price based on buying agent's formula.

Present control procedures only require the seller to list the items for sale, their purchase price, date of purchase, and to certify whether a total profit was or was not made from the sale. No verification is made by the General Services Officer of the purchase or sales price of individual items nor are complete reviews made of the sales application to insure only bona fide personal use items that have been held for the proper time are offered for sale.

We believe this to be a serious weakness in the system which allowed to go unquestioned the reporting by one individual of sale of accountable restricted items having an acquisition cost of over \$2,300 at no profit when the market price for the items was over \$3,100. The individual used home leave orders as the authorization for the sale rather than permanent change-of-station orders as required. Other individuals were identified as having sold items without holding them for the required time period.

Declaring and donating profits to charity

Both State Department and Embassy regulations require that profits from vehicle sales be donated to a U.S. charity, a local charity approved by the Ambassador, the U.S. Government, or an authorized agency of the U.S. Government. Circular 378 also provides income tax guidance and an example for Embassy personnel outlining the financial advantages of declaring the profit as a capital gain and deducting the charitable contribution.

Procedures for insuring that reported profits are donated to charities were inadequate. For example, the written certification of the disposal of profits on the sale of the 1974 Mercedes Benz noted above showed only that the seller planned to contribute unspecified amounts to nine specified charities and to "other charities that may solicit my assistance." According to the Administrative Counselor and the General Services Officer, no followups are done to insure that donations are actually made.

The degree to which the system can be abused under present conditions is exemplified by one case we reviewed. An employee reported a profit on the sale of a personal car which on the basis of available data should have been questioned for understatement. Additionally, he sold accountable restricted items at much less than market value without proper orders and also violated the Embassy's gift regulations (see pp. 3, 6, and 7). Despite these apparent violations, his actions were not detected by the Embassy system but by the military merchandise control system when a check of his exchange purchases disclosed several positive indications of black-marketing and an expanded investigation was undertaken.

Conclusions and recommendations

The Unit Administrative Officers and General Services Officer were not performing sufficient review and verification of vehicle and restricted accountable item sales transactions to insure the accuracy of purchase and sales prices. They were also not requiring sufficient documentation to determine whether profits actually were donated to approved charitable institutions. Control was solely dependent on an individual's honesty.

We recommend that you require Embassy officials to request documentation to support acquisition costs and sales prices and that employees be required to furnish proof that excess proceeds from sales of personal property including vehicles were donated to approved charities. Where cost or sales price data furnished by employees is out of line with current market prices and other data, as a minimum, special explanations should be required.

BETTER CONTROL NEEDED OVER GIFTS

Circular 31/75 requires that bona fide, duty-free gifts, whether imported or transported into Taiwan or acquired in Taiwan, given to persons outside the duty-free community must meet the following criteria:

1. No gift over \$25 in value may be given without written approval by appropriate authorities.
2. All gifts given to any one recipient in any 12-month period may not exceed \$75.00 in value.
3. All gifts given in any 1 year by one member of the duty-free community shall not exceed \$300 in value.

Despite these restrictions, one sponsor and his dependents had purchased items to be given as gifts totaling \$319 in 1976; \$1,618 in 1975; and \$589 in 1974. In 1975, the sponsor had spent \$490 for gifts and his wife had spent \$1,035. Both were over the \$300 limit and among the gifts were a variety of accountable items (luggage and electric blanket) and black-market items (cosmetics, baby clothing, bedding, and dinnerware). For a complete listing of the gift purchases, see enclosure II.

We recommend that you establish a review process to periodically insure people are complying with Circular 31/75's limit on gifts.

LIQUOR SALES CONTROLS CAN BE IMPROVED

The Embassy operates all U.S. Government liquor stores on Taiwan. According to the Administrative Counselor, about 95 percent of the sales are to non-Embassy military and civilian employees and their dependents. This situation results from the Embassy originally having liquor stores under diplomatic conditions and expanding the stores when military activities on Taiwan increased.

Embassy control of liquor

Although the Embassy is a minority user of the liquor stores, it operates the control system. About 2,000 military and Government contract and 400 other personnel have ration cards that permit them to purchase liquor and wine at the stores. The cards are issued annually and have monthly unit limits. Embassy shop personnel mark each person's card at the time of purchase to show how much of the monthly ration has been used. Waivers to increase the monthly limit can be obtained from the Administrative Counselor if the requestor has a valid reason.

About 2 years ago the Embassy and the military had discussions on methods to reduce drug and alcohol abuse on Taiwan. As a result, the limits were reduced to the following monthly levels.

<u>Category</u>	<u>Liquor</u> (bottles)	or	<u>Wine</u> (bottles)
Military - 1 person	8		32
2 people	16		64
Embassy - 1 person	10		40
2 people	20		80

We discussed these limits with Embassy and military personnel. All agreed that few people could use their complete ration on an extended basis and that the limits could be reduced without restricting legitimate buyers. Law enforcement and investigative officials added that reducing the limits would result in fewer items reaching the black market.

Inadequate review of liquor purchases

The Embassy controls the issuing and monitoring of liquor ration cards. The Embassy shop does not make periodic reviews of individual cardholder purchases. The only checks made are individual ones and at the specific request of the Provost Marshal Office. As a result, the majority of liquor purchases are not reviewed for potential black-marketing activities of a product that has probably the highest profit to cost ratio of any item being black-marketed.

We recommend that you reduce liquor limits and introduce a procedure to periodically review purchases by all cardholders to detect potential abusers.

- - - -

Please advise us as soon as possible on what action you plan to take to improve controls over gifts and sales of liquor and personal property.

We are sending copies of this report to the Assistant Secretary of State for Administration and the Inspector General for their information.

We appreciate the courtesies and cooperation extended to our representatives during our survey.

Sincerely yours,



W. H. Sheley, Jr.
Director

Enclosures - 2

cc: Assistant Secretary of State
for Administration
Inspector General

COMPARISON OF SALES PRICES OF VEHICLES SOLD OUTSIDE THE
U.S. COMMUNITY BY EMBASSY AND NON-EMBASSY PERSONNEL--

(SELECTED TRANSACTIONS)

<u>Vehicle</u>	<u>Embassy sales</u>		<u>Non-Embassy sales/</u>	
	<u>Date of sale</u>	<u>Purchase price</u>	<u>Jan./Feb. 1977</u>	<u>Sales prices of same/similar vehicles</u>
1974 Ford Mustang	1/ 7/76	\$4,100	\$3,605	1974 Ford Mustang \$ 5,000 1974 Ford Mustang 6,000 1974 Ford Mustang 6,000
1974 Ford Gran Torino	4/16/76	5,600	5,013	1973 Gran Torino 4,500 1975 Gran Torino 10,000 1974 Pontiac Lemans 6,483
1974 Ford LTD	5/11/76	5,414	5,407	1973 Ford LTD 5,227 1975 Ford LTD 15,000 1974 Pontiac Lemans 6,483
1974 Olds Cutlass	5/18/76	5,800	5,797	1975 Olds Cutlass 13,000 1974 Pontiac Lemans 6,483
1975 Chevrolet	6/16/76	5,402	5,402	1975 Monte Carlo 13,600 1975 Olds Cutlass 13,000 1975 Ford Granada 10,100 1975 Ford Granada 11,000 1975 Ford Granada 7,000
1975 Ford Granada	11/23/76	4,905	4,905	1975 Ford Granada 7,000 1975 Ford Granada 10,000 1975 Ford Granada 11,300
1974 Toyota Corolla	1/26/76	2,315	2,312	1974 Toyota Corolla 4,500 1974 Toyota Corolla 5,500 1974 Toyota Corolla 6,000
1974 Chevrolet Impala	5/27/76	4,024	4,024	1974 Chevrolet Nova 5,395 1974 Pontiac Lemans 6,483

<u>Embassy sales</u>			<u>Non-Embassy sales</u>	
<u>Vehicle</u>	<u>Date of sale</u>	<u>Purchase price</u>	<u>Sales price</u>	<u>Jan./Feb. 1977 Sales prices of same/similar vehicles</u>
1974 Toyota Corolla	6/ 9/76	\$2,800	\$2,899	1974 Toyota Corolla \$ 4,500 1974 Toyota Corolla 5,500 1974 Toyota Corolla 6,000
1974 Ford Mustang	8/18/76	4,000	4,000	1974 Ford Mustang 5,000 1974 Ford Mustang 6,000 1974 Ford Mustang 6,000
1974 Dodge Dart	9/ 7/.0	3,765	3,557	1974 Dodge Dart 6,850
1975 Mercury Monarch	7/ 6/76	7,271	7,209	1975 Ford Granada 7,000 1975 Ford Granada 10,100 1975 Ford Granada 13,000 1975 Olds Cutlass 13,000
1974 Mercury Comet	7/12/76	5,700	5,700	1974 Mercury Comet 9,158 (sale occurred 1/8/76)
1974 Chevrolet Vega	8/ 6/76	3,800	3,795	1974 Chevrolet Vega 4,000 1974 Chevrolet Vega 3,650 1974 Chevrolet Vega 5,200 1974 Chevrolet Vega 5,000

1/All sales transaction of the same model and year vehicle as the Embassy vehicle sold are included.

	1976		1975		1974	
	Number of items	Price	Number of items	Price	Number of items	Price
Personal items (con't)						
			Men's gift set\$	5.50		
			Various cosmetics	39.00		
			Various cosmetics	35.45		
			3 Bubble baths	35.50		
Baby goods			2 Nurser sets	17.00		
			Nurser sets	7.00		
			Baby crib	60.00		
			Baby mattress	21.00		
			2 Diapers	10.00		
			Stroller	\$ 26.50		
Bedding	2 Sheets	21.00	Blanket, bed-spread and 2 pillowcases	48.00		
			5 Blankets	57.00	Blanket	\$ 12.00
			Blanket	9.00		
			Electric blanket	18.50		
			Bedsread	22.50	Bedsread	22.50
			Bedsread	23.50	Bedsread	24.00
			Bedsread	15.00		
			Pillowcase	2.95	Pillowcase	2.95
					2 Pillowcases	6.00
					Pillowcase	3.00
					2 Sheets	6.00
					4 Sheets	42.00
			2 Sheets	7.00		
Dinnerware	Wine decanter	20.50	Wine decanter	12.00		
	Wine decanter	13.00	Wine decanter	11.50		
			Dinner set	60.00		
			Dinner set	58.00		
			Dinner set	39.00		
			Dinner set	15.00	Dinner set	15.00
			Dish set	17.00		
			Dish set	15.00		

	1976		1975		1974	
	Number of items	Price	Number of items	Price	Number of items	Price
Dinnerware (con't)	2	\$ 29.00	Cookware set \$	14.50		
			Cooking plate	21.75		
			Tray cart	8.00	Silverware	\$ 54.50
Other			Luggage, 3 suiter	39.00		
			Luggage, pullman	64.00		
			Luggage, overnight	26.00		
			Tote bag	25.50		
			Astray and lighter	31.00		
			Table lamp	14.00		
					Rug	24.00
					3 Tapes	15.50
					Tennis racket	32.00
					2 Electric heaters	54.00
						<u>\$589.80</u>
			2 Electric heaters	54.00		
						<u>\$1,618.90</u>
						<u>\$319.20</u>

(963060)